

SMITH COUNTY, MISSISSIPPI

Audited Financial Statements and Special Reports
For the Year Ended September 30, 2011

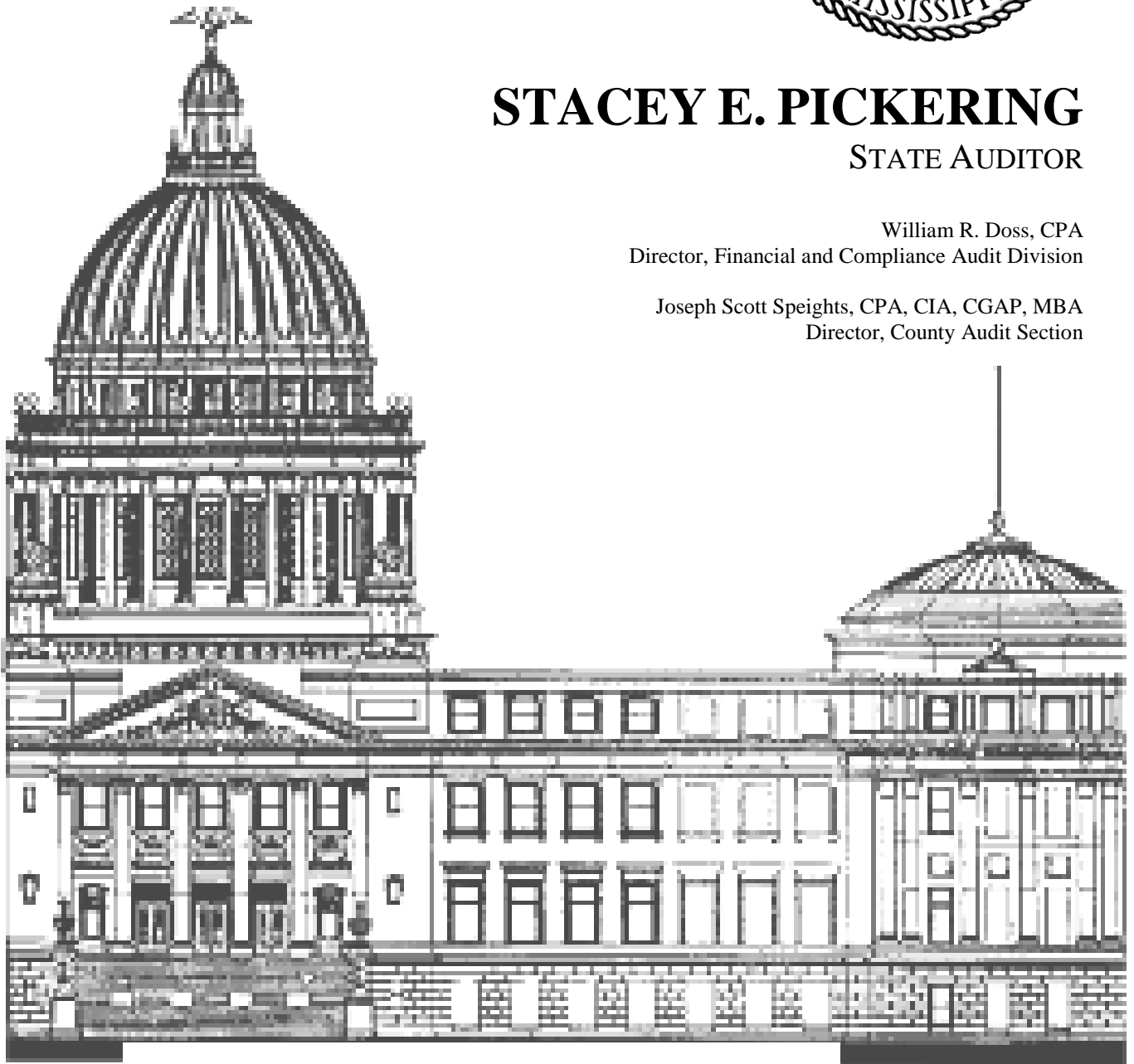


STACEY E. PICKERING

STATE AUDITOR

William R. Doss, CPA
Director, Financial and Compliance Audit Division

Joseph Scott Speights, CPA, CIA, CGAP, MBA
Director, County Audit Section



A Report from the County Audit Section

www.osa.state.ms.us



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

December 18, 2012

Members of the Board of Supervisors
Smith County, Mississippi

Dear Board Members:

I am pleased to submit to you the 2011 financial and compliance audit report for Smith County. This audit was performed pursuant to Section 7-7-211(e), Mississippi Code Ann. (1972). The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

I appreciate the cooperation and courtesy extended by the officials and employees of Smith County throughout the audit. Thank you for working to move Mississippi forward by serving as a supervisor for Smith County. If I or this office can be of any further assistance, please contact me or J. Scott Speights of my staff at (601) 576-2674.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Stacey E. Pickering", is written over a horizontal line.

Stacey E. Pickering
State Auditor

SMITH COUNTY

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SMITH COUNTY

FINANCIAL SECTION

SMITH COUNTY

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STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Supervisors
Smith County, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Smith County, Mississippi, as of and for the year ended September 30, 2011, which collectively comprise the basic financial statements of the county's primary government as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements do not include financial data for the county's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for this component unit to be reported with the financial data of the county's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data for its component unit. The county has not issued such reporting entity financial statements. The amount by which this departure would affect the assets, liabilities, net assets, revenues and expenses of the aggregate discretely presented component unit is not reasonably determinable.

In our opinion, because of the omission of the discretely presented component unit, as discussed previously, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component unit of Smith County, Mississippi, as of September 30, 2011, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Smith County, Mississippi, as of September 30, 2011, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

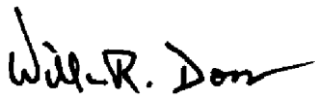
As discussed in Note 2, the county adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* as of October 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2012, on our consideration of Smith County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Smith County, Mississippi, has not presented Management's Discussion and Analysis that is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board.

The Budgetary Comparison Schedules and corresponding notes are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Smith County, Mississippi's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Will R. Dooss".

WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

December 18, 2012

SMITH COUNTY

FINANCIAL STATEMENTS

SMITH COUNTY

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SMITH COUNTY
Statement of Net Assets
September 30, 2011

Exhibit 1

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Cash	\$ 8,516,525	579,214	9,095,739
Accrued interest receivable	2,972		2,972
Property tax receivable	6,035,080		6,035,080
Accounts receivable (net of allowance for uncollectibles of \$272,947)		300,267	300,267
Fines receivable (net of allowance for uncollectibles of \$886,923)	159,672		159,672
Intergovernmental receivables	90,005		90,005
Other receivables	14,926		14,926
Internal balances	44,590	(44,590)	
Capital assets:			
Land and construction in progress	648,635		648,635
Other capital assets, net	30,561,166	185,237	30,746,403
Total Assets	46,073,571	1,020,128	47,093,699
LIABILITIES			
Claims payable	465,392	25,526	490,918
Intergovernmental payables	307,189		307,189
Accrued interest payable	15,532		15,532
Deferred revenue	6,035,080		6,035,080
Unearned revenue	79,045	68,074	147,119
Other payables	154,661		154,661
Long-term liabilities			
Due within one year:			
Capital debt	706,186		706,186
Due in more than one year:			
Capital debt	5,015,188		5,015,188
Total Liabilities	12,778,273	93,600	12,871,873
NET ASSETS			
Invested in capital assets, net of related debt	25,488,427	185,237	25,673,664
Restricted:			
Expendable:			
General government	267,859		267,859
Debt service	1,061,072		1,061,072
Public safety	2,476,018		2,476,018
Public works	1,603,955	741,291	2,345,246
Culture and recreation	19,409		19,409
Conservation of natural resources	9,937		9,937
Economic development	27,474		27,474
Unrestricted	2,341,147		2,341,147
Total Net Assets	\$ 33,295,298	926,528	34,221,826

The notes to the financial statements are an integral part of this statement.

SMITH COUNTY
Statement of Activities
For the Year Ended September 30, 2011

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Business-type	Total
					Governmental Activities	Activities	
Primary government:							
Governmental activities:							
General government	\$ 2,409,406	304,024	17,248		(2,088,134)		(2,088,134)
Public safety	1,812,933	171,827	117,610	29,680	(1,493,816)		(1,493,816)
Public works	4,699,884		606,669	172,011	(3,921,204)		(3,921,204)
Health and welfare	101,972		10,160		(91,812)		(91,812)
Culture and recreation	131,416				(131,416)		(131,416)
Education	225,336				(225,336)		(225,336)
Conservation of natural resources	58,157				(58,157)		(58,157)
Economic development and assistance	176,954		118,782	209,237	151,065		151,065
Interest on long-term debt	239,756				(239,756)		(239,756)
Total Governmental Activities	<u>9,855,814</u>	<u>475,851</u>	<u>870,469</u>	<u>410,928</u>	<u>(8,098,566)</u>		<u>(8,098,566)</u>
Business-type activities:							
Solid Waste	449,066	633,951				184,885	184,885
Total Business-type Activities	<u>449,066</u>	<u>633,951</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>184,885</u>	<u>184,885</u>
Total Primary Government	<u>\$ 10,304,880</u>	<u>1,109,802</u>	<u>870,469</u>	<u>410,928</u>	<u>(8,098,566)</u>	<u>184,885</u>	<u>(7,913,681)</u>
General revenues:							
Property taxes					\$ 6,174,181		6,174,181
Road & bridge privilege taxes					194,208		194,208
Grants and contributions not restricted to specific programs					1,361,067		1,361,067
Unrestricted interest income					163,020	6,351	169,371
Miscellaneous					279,512	7,374	286,886
Total General Revenues					<u>8,171,988</u>	<u>13,725</u>	<u>8,185,713</u>
Changes in Net Assets					<u>73,422</u>	<u>198,610</u>	<u>272,032</u>
Net Assets - Beginning					34,036,524	727,918	34,764,442
Prior period adjustment					(814,648)		(814,648)
Net Assets - Beginning, as restated					<u>33,221,876</u>	<u>727,918</u>	<u>33,949,794</u>
Net Assets - Ending					<u>\$ 33,295,298</u>	<u>926,528</u>	<u>34,221,826</u>

The notes to the financial statements are an integral part of this statement.

SMITH COUNTY
Balance Sheet - Governmental Funds
September 30, 2011

Exhibit 3

	Major Funds				
	General Fund	Countywide Road & Bridge Fund	Jail Construction Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 2,559,346	394,522	2,233,841	3,328,816	8,516,525
Accrued interest receivable			2,972		2,972
Property tax receivable	3,773,260	1,350,000		911,820	6,035,080
Fines receivable (net of allowance for uncollectibles of \$886,923)	159,672				159,672
Intergovernmental receivables	90,005				90,005
Other receivables	14,926				14,926
Due from other funds	48,800	20,722		30,356	99,878
Advances to other funds	157,172				157,172
Total Assets	<u>\$ 6,803,181</u>	<u>1,765,244</u>	<u>2,236,813</u>	<u>4,270,992</u>	<u>15,076,230</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Claims payable	\$ 163,635	4,039	28,675	269,043	465,392
Intergovernmental payables	232,047				232,047
Due to other funds	54,847			38,382	93,229
Advances from other funds		71,373		123,000	194,373
Deferred revenue	3,932,932	1,350,000		911,820	6,194,752
Unearned revenue				79,045	79,045
Other payables	154,661				154,661
Total Liabilities	<u>4,538,122</u>	<u>1,425,412</u>	<u>28,675</u>	<u>1,421,290</u>	<u>7,413,499</u>
Fund balances:					
Nonspendable:					
Advances	157,172				157,172
Restricted for:					
General government				267,859	267,859
Public safety			2,208,138	267,880	2,476,018
Public works		339,832		1,264,123	1,603,955
Culture and recreation				19,409	19,409
Conservation of natural resources				9,937	9,937
Economic development and assistance				27,474	27,474
Debt service				1,076,604	1,076,604
Unassigned	2,107,887			(83,584)	2,024,303
Total Fund Balances	<u>2,265,059</u>	<u>339,832</u>	<u>2,208,138</u>	<u>2,849,702</u>	<u>7,662,731</u>
Total Liabilities and Fund Balances	<u>\$ 6,803,181</u>	<u>1,765,244</u>	<u>2,236,813</u>	<u>4,270,992</u>	<u>15,076,230</u>

The notes to the financial statements are an integral part of this statement.

SMITH COUNTY

Exhibit 3-1Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2011Amount

Total Fund Balance - Governmental Funds

\$ 7,662,731

Amounts reported for governmental activities in the Statement of Net Assets
are different because:Capital assets are used in governmental activities and are not financial resources and,
therefore, are not reported in the funds, net of accumulated depreciation of \$46,898,257.

31,209,801

Other long-term assets are not available to pay for current period expenditures and,
therefore, are deferred in the funds.

159,672

Long-term liabilities are not due and payable in the current period and,
therefore, are not reported in the funds.

(5,721,374)

Accrued interest payable is not due and payable in the current period and,
therefore, is not reported in the funds.(15,532)

Total Net Assets - Governmental Activities

\$ 33,295,298

The notes to the financial statements are an integral part of this statement.

SMITH COUNTY

Exhibit 4

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended September 30, 2011

	Major Funds			Other	Total
	General	County wide	Jail	Governmental	Governmental
	Fund	Road & Bridge	Construction	Funds	Funds
		Fund	Fund		
REVENUES					
Property taxes	\$ 3,857,976	1,384,704		931,501	6,174,181
Road and bridge privilege taxes				194,208	194,208
Licenses, commissions and other revenue	93,805			4,302	98,107
Fines and forfeitures	127,265			680	127,945
Intergovernmental revenues	635,907	7,987		1,998,570	2,642,464
Charges for services	18,855			132,626	151,481
Interest income	94,828	5,779	19,704	42,709	163,020
Miscellaneous revenues	189,246	136		79,864	269,246
Total Revenues	5,017,882	1,398,606	19,704	3,384,460	9,820,652
EXPENDITURES					
Current:					
General government	2,289,788			16,050	2,305,838
Public safety	1,530,071		135,710	204,182	1,869,963
Public works		646,673		3,397,732	4,044,405
Health and welfare	101,972				101,972
Culture and recreation	131,238			178	131,416
Education	225,336				225,336
Conservation of natural resources	57,062			1,095	58,157
Economic development and assistance	28,940			148,014	176,954
Debt service:					
Principal	31,697	22,058		702,425	756,180
Interest	2,564	1,696		236,432	240,692
Total Expenditures	4,398,668	670,427	135,710	4,706,108	9,910,913
Excess of Revenues over (under) Expenditures	619,214	728,179	(116,006)	(1,321,648)	(90,261)
OTHER FINANCING SOURCES (USES)					
Long-term capital debt issued		147,874		278,584	426,458
Proceeds from sale of capital assets	7,300	33,000		54,098	94,398
Transfers in	100,110			1,296,730	1,396,840
Transfers out		(1,280,000)		(116,840)	(1,396,840)
Total Other Financing Sources and Uses	107,410	(1,099,126)	0	1,512,572	520,856
Net Changes in Fund Balances	726,624	(370,947)	(116,006)	190,924	430,595
Fund Balances - Beginning	1,538,435	710,779	2,324,144	2,658,778	7,232,136
Fund Balances - Ending	\$ 2,265,059	339,832	2,208,138	2,849,702	7,662,731

The notes to the financial statements are an integral part of this statement.

SMITH COUNTY

Exhibit 4-1

Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2011

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ 430,595
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays of \$832,763 were exceeded by depreciation of \$1,534,780 in the current period.	(702,017)
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net gain of \$10,266 and the proceeds from the sale of \$94,398 in the current period.	(84,132)
Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.	98,318
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt repayments of \$756,180 exceeded debt proceeds of \$426,458.	329,722
Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balance by the decrease in accrued interest payable.	<u>936</u>
Change in Net Assets of Governmental Activities	\$ <u><u>73,422</u></u>

The notes to the financial statements are an integral part of this statement.

SMITH COUNTY
Statement of Net Assets - Proprietary Fund
September 30, 2011

Exhibit 5

	Business-type Activities - Enterprise Fund
	<u>Solid Waste Fund</u>
ASSETS	
Current assets:	
Cash	\$ 579,214
Accounts receivable (net of allowance for uncollectibles of \$272,947)	<u>300,267</u>
Total Current Assets	<u>879,481</u>
Noncurrent assets:	
Capital assets:	
Other capital assets, net	<u>185,237</u>
Total Noncurrent Assets	<u>185,237</u>
Total Assets	<u>1,064,718</u>
LIABILITIES	
Current liabilities:	
Claims payable	25,526
Due to other funds	10,418
Advances from other funds	34,172
Unearned revenue	<u>68,074</u>
Total Current Liabilities	<u>138,190</u>
NET ASSETS	
Invested in capital assets, net of related debt	185,237
Restricted for:	
Public works	<u>741,291</u>
Total Net Assets	\$ <u><u>926,528</u></u>

The notes to the financial statements are an integral part of this statement.

SMITH COUNTY

Exhibit 6Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund
For the Year Ended September 30, 2011

	Business-type Activities - Enterprise Fund
	<u>Solid Waste Fund</u>
Operating Revenues	
Charges for services	\$ 633,951
Miscellaneous	197
Total Operating Revenues	<u>634,148</u>
Operating Expenses	
Personal services	156,340
Contractual services	120,861
Materials and supplies	100,063
Depreciation expense	61,151
Indirect administrative cost	10,418
Total Operating Expenses	<u>448,833</u>
Operating Income (Loss)	<u>185,315</u>
Nonoperating Revenues (Expenses)	
Interest income	6,351
Gain (loss) on sale of capital assets	7,177
Interest expense	(233)
Net Nonoperating Revenue (Expenses)	<u>13,295</u>
Changes in Net Assets	<u>198,610</u>
Net Assets - Beginning	<u>727,918</u>
Net Assets - Ending	<u>\$ 926,528</u>

The notes to the financial statements are an integral part of this statement.

SMITH COUNTY
Statement of Cash Flows - Proprietary Fund
For the Year Ended September 30, 2011

Exhibit 7

	Business-type Activities - Enterprise Fund
	Solid Waste Fund
Cash Flows From Operating Activities	
Receipts from customers	\$ 667,495
Payments to suppliers	(94,325)
Payments to employees	(156,360)
Payments for claims	(119,626)
Other operating cash receipts	13,328
Net Cash Provided (Used) by Operating Activities	<u>310,512</u>
Cash Flows From Capital and Related Financing Activities	
Proceeds from sale of capital assets	14,000
Acquisition and construction of capital assets	(111,959)
Principal paid on long-term debt	(16,712)
Interest paid on debt	(233)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(114,904)</u>
Cash Flows From Investing Activities	
Interest on deposits	<u>6,351</u>
Net Cash Provided (Used) by Investing Activities	<u>6,351</u>
Net Increase (Decrease) in Cash and Cash Equivalents	201,959
Cash and Cash Equivalents at Beginning of Year	<u>377,255</u>
Cash and Cash Equivalents at End of Year	<u>\$ 579,214</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 185,315
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	61,151
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(34,530)
Increase (decrease) in claims payable	6,953
Increase (decrease) in unearned revenue	68,074
Increase (decrease) in interfund payables	23,549
Total Adjustments	<u>125,197</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 310,512</u>

Noncash Capital Financing Activity:
Principal payments of \$16,712 were made on the lease during the year.

The notes to the financial statements are an integral part of this statement.

SMITH COUNTY
Statement of Fiduciary Assets and Liabilities
September 30, 2011

Exhibit 8

		Agency Funds
ASSETS		
Cash	\$	337,081
Advances to other funds		71,373
Due from other funds		3,769
Total Assets	\$	<u>412,223</u>
LIABILITIES		
Amounts held in custody for others	\$	317,908
Intergovernmental payables		94,315
Total Liabilities	\$	<u>412,223</u>

The notes to the financial statements are an integral part of this statement.

SMITH COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2011

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

Smith County is a political subdivision of the State of Mississippi. The county is governed by an elected five-member Board of Supervisors. Accounting principles generally accepted in the United States of America require Smith County to present these financial statements on the primary government and its component units which have significant operational or financial relationships with the county.

Management has chosen to omit from these financial statements the following component unit which has significant operational or financial relationship with the county. Accordingly, the financial statements do not include the data of this component unit necessary for reporting in conformity with accounting principles generally accepted in the United States of America.

- Smith County Economic Development Authority

State law pertaining to county government provides for the independent election of county officials. The following elected and appointed officials are all part of the county legal entity and therefore are reported as part of the primary government financial statements.

- Board of Supervisors
- Chancery Clerk
- Circuit Clerk
- Justice Court Clerk
- Purchase Clerk
- Tax Assessor-Collector
- Sheriff

B. Basis of Presentation.

The county's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities, fund financial statements and accompanying note disclosures which provide a detailed level of financial information.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information concerning the county as a whole. The statements include all nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are generally financed through taxes, intergovernmental revenues and other nonexchange revenues and are reported separately from business-type activities. Business-type activities rely mainly on fees and charges for support.

The Statement of Net Assets presents the financial condition of the governmental activities and business-type activities of the county at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the county's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other revenues not classified as program revenues are presented as general revenues of the county, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business-type activity or governmental function is self-financing or draws from the general revenues of the county.

SMITH COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2011

Fund Financial Statements:

Fund financial statements of the county are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are organized into governmental, proprietary and fiduciary. Major individual Governmental Funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

C. Measurement Focus and Basis of Accounting.

The Government-wide, Proprietary Funds and Fiduciary Funds (excluding agency funds) financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenues are recognized when the provider government recognizes the liability to the county. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied. Agency funds have no measurement focus, but use the accrual basis of accounting.

The county's Proprietary Funds apply all applicable Governmental Accounting Standards Board (GASB) pronouncements and only the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The revenues and expenses of Proprietary Funds are classified as operating or nonoperating. Operating revenues and expenses generally result from providing services in connection with a Proprietary Fund's primary operations. All other revenues and expenses are reported as nonoperating.

Governmental financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period when they are both measurable and available to finance operations during the year or to liquidate liabilities existing at the end of the year. Available means collected in the current period or within 60 days after year end to liquidate liabilities existing at the end of the year. Measurable means knowing or being able to reasonably estimate the amount. Expenditures are recognized in the accounting period when the related fund liabilities are incurred. Debt service expenditures and expenditures related to compensated absences and claims and judgments, are recognized only when payment is due. Property taxes, state appropriations and federal awards are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period.

The county reports the following major Governmental Funds:

General Fund - This fund is used to account for and report all financial resources not accounted for and reported in another fund.

Countywide Road and Bridge Fund - This fund is used to account for resources designated and used for maintenance of the county's infrastructure system.

Jail Construction Fund - This fund is used to account for bond proceeds designated to be used for the construction of a new jail.

SMITH COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2011

The county reports the following major Proprietary Fund:

Solid Waste Fund - This fund is used to account for the county's activities of disposal of solid waste within the county.

Additionally, the county reports the following fund types:

GOVERNMENTAL FUND TYPES

Special Revenue Funds - These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt Service Funds - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Capital Projects Funds - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

PROPRIETARY FUND TYPE

Enterprise Funds - These funds are used to account for those operations that are financed and operated in a manner similar to private business enterprises or where the county has decided that periodic determination of revenues earned, expenses incurred and/or net income is necessary for management accountability.

FIDUCIARY FUND TYPE

Agency Funds - These funds account for various taxes, deposits and other monies collected or held by the county, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2005 by the Government Finance Officers Association.

E. Deposits and Investments.

State law authorizes the county to invest in interest bearing time certificates of deposit for periods of fourteen days to one year with depositories and in obligations of the U.S. Treasury, State of Mississippi, or any county, municipality or school district of this state. Further, the county may invest in certain repurchase agreements.

Cash includes cash on hand, demand deposits, all certificates of deposit and cash equivalents, which are short-term highly liquid investments that are readily convertible to cash (generally three months or less). Investments in governmental securities are stated at fair value. However, the county did not invest in any governmental securities during the fiscal year.

F. Receivables.

Receivables are reported net of allowances for uncollectible accounts, where applicable.

SMITH COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2011

G. Interfund Transactions and Balances.

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Noncurrent portions of interfund receivables and payables are reported as "advances to/from other funds." Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in applicable Governmental Funds to indicate that they are not available for appropriation and are not expendable available financial resources. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

H. Capital Assets.

Capital acquisition and construction are reflected as expenditures in Governmental Fund statements and the related assets are reported as capital assets in the applicable governmental or business-type activities column in the government-wide financial statements. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. Capital assets include significant amounts of infrastructure which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition. The extent to which capital assets, other than infrastructure, costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

Governmental accounting and financial reporting standards allow governments meeting certain criteria to elect not to report major general infrastructure assets retroactively. Smith County meets this criteria and has so elected. Therefore, the major general infrastructure assets acquired prior to October 1, 2002, are not reported in the government-wide financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets acquired subsequent to October 1, 2002.

Capital assets acquired or constructed for Proprietary Fund operations are capitalized at cost in the respective funds in which they are utilized. No interest is capitalized on self-constructed assets because noncapitalization of interest does not have a material effect on the county's financial statements. Donated capital assets are recorded at their fair value at the time of donation.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives are used to report capital assets in the government-wide statements and Proprietary Funds. Depreciation is calculated on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year. The following schedule details those thresholds and estimated useful lives:

	Capitalization Thresholds	Estimated Useful Life
Land	\$ 0	N/A
Infrastructure	0	20-50 years
Buildings	50,000	40 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

* Leased property capitalization policy and estimated useful life will correspond with the amounts for the asset classification, as listed above.

SMITH COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2011

I. Long-term Liabilities.

Long-term liabilities are the unmatured principal of bonds, loans, notes or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments.

In the government-wide financial statements and in the Proprietary Fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or Proprietary Funds Statement of Net Assets.

J. Equity Classifications.

Government-wide Financial Statements:

Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, construction or improvement of those assets.

Restricted net assets - Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or law through constitutional provisions or enabling legislation.

Unrestricted net assets - All other net assets not meeting the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Financial Statements:

Fund balances for governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Government fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. The following are descriptions of fund classifications used by the county:

Nonspendable fund balance includes amounts that cannot be spent. This includes amounts that are either not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds from the collection of those receivables or from the sale of those properties are restricted, committed or assigned) or amounts that are legally or contractually required to be maintained intact, such as a principal balance of a permanent fund.

Restricted fund balance includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds if expenditures incurred for specific purposes exceeded the amounts restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

SMITH COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2011

When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, it is the county's general policy to use restricted resources first. When expenditures are incurred for purposes for which unrestricted resources are available, and amounts in any of these unrestricted classifications could be used, it is the county's general policy to spend unassigned resources first.

K. Property Tax Revenues.

Numerous statutes exist under which the Board of Supervisors may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the county. Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

The Board of Supervisors, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied. Motor vehicle and mobile home taxes do not meet the measurability and collectibility criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

L. Intergovernmental Revenues in Governmental Funds.

Intergovernmental revenues, consisting of grants, entitlements and shared revenues, are usually recorded in Governmental Funds when measurable and available. However, the "available" criterion applies for certain federal grants and shared revenues when the expenditure is made because expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

(2) Changes in Accounting Standards.

For the fiscal year ended September 30, 2011, the county implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned.

SMITH COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2011

(3) Prior Period Adjustment.

A summary of significant fund equity adjustment is as follows:

Exhibit 2 - Statement of Activities – Governmental Activities.

Explanation	Amount
The adjustment is to correct error in the recording of prior year Capital assets – Governmental Activities	\$ (814,648)
Total prior period adjustment	\$ (814,648)

(4) Deposits.

The carrying amount of the county's total deposits with financial institutions at September 30, 2011, was \$9,432,820, and the bank balance was \$9,615,745. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the county will not be able to recover deposits or collateral securities that are in the possession of an outside party. The county does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the county. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the county.

(5) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2011:

A. Due From/To Other Funds:

Receivable Fund	Payable Fund	Amount
General Fund	Solid Waste Fund	\$ 10,418
General Fund	Other Governmental Funds	38,382
Countywide Road & Bridge Fund	General Fund	20,722
Other Governmental Funds	General Fund	30,356
Agency Funds	General Fund	3,769
Total		\$ 103,647

The receivables represent the tax revenue collected but not settled until October, 2011, short-term loans, and indirect cost from the Solid Waste Fund. All interfund balances are expected to be repaid within one year from the date of the financial statements.

SMITH COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2011

B. Advances from/to Other Funds:

Receivable Fund	Payable Fund	Amount
General Fund	Other Governmental Funds	\$ 123,000
General Fund	Solid Waste Fund	34,172
Agency Funds	Countywide Road & Bridge Fund	71,373
Total		\$ 228,545

The advances represent indirect costs associated with solid waste operations and an interfund loan resulting from errors in the settlement of tax revenues. These advances are not expected to be repaid within one year from the date of the financial statements.

C. Transfers In/Out:

Transfer In	Transfer Out	Amount
General Fund	Other Governmental Funds	\$ 100,110
Other Governmental Funds	Other Governmental Funds	16,730
Other Governmental Funds	Countywide Road & Bridge Fund	1,280,000
Total		\$ 1,396,840

The principal purpose of interfund transfers was to allocate amounts to the individual road maintenance funds, to transfer specified funds for accounting purposes, or to transfer funds for operating purposes. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

(6) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2011, consisted of the following:

Description	Amount
Governmental Activities:	
Legislative tax credit	\$ 83,589
Federal Emergency Management funds	6,416
Total Governmental Activities	\$ 90,005

SMITH COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2011

(7) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2011:

Governmental activities:

	Balance Oct. 1, 2010	Additions	Deletions	Adjustments*	Balance Sept. 30, 2011
<u>Non-depreciable capital assets:</u>					
Land	\$ 385,456				385,456
Construction in progress	127,469	135,710			263,179
Total non-depreciable capital assets	512,925	135,710	0	0	648,635
<u>Depreciable capital assets:</u>					
Infrastructure	64,215,518	373,100	10,554		64,578,064
Buildings	6,087,137			(441,149)	5,645,988
Mobile equipment	5,078,616	37,043	213,060	(428,798)	4,473,801
Furniture and equipment	613,345	17,700	27,693	67,228	670,580
Leased property under capital leases	2,117,181	269,210	52,668	(242,733)	2,090,990
Total depreciable capital assets	78,111,797	697,053	303,975	(1,045,452)	77,459,423
<u>Less accumulated depreciation for:</u>					
Infrastructure	40,292,721	994,050	9,178	48,900	41,326,493
Buildings	931,055	103,850		(12,129)	1,022,776
Mobile equipment	3,303,837	149,256	173,417	87,649	3,367,325
Furniture and equipment	363,186	42,723	18,280	6,022	393,651
Leased property under capital leases	923,325	244,901	18,968	(361,246)	788,012
Total accumulated depreciation	45,814,124	1,534,780	219,843	(230,804)	46,898,257
Total depreciable capital assets, net	32,297,673	(837,727)	84,132	(814,648)	30,561,166
Governmental activities capital assets, net	\$ 32,810,598	(702,017)	84,132	(814,648)	31,209,801

*Adjustments are for the reclassification of equipment transferred to mobile equipment and furniture and equipment from paid off leases. Also, prior period adjustments were made to correctly state capital assets.

SMITH COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2011

Business-type activities:

	Balance Oct. 1, 2010	Additions	Deletions	Adjustments**	Balance Sept. 30, 2011
<u>Depreciable capital assets:</u>					
Mobile equipment	276,824	111,959	68,225	106,645	427,203
Leased property under capital leases	106,645			(106,645)	0
Total depreciable capital assets	383,469	111,959	68,225	0	427,203
<u>Less accumulated depreciation for:</u>					
Mobile equipment	165,433	61,151	61,402	76,784	241,966
Leased property under capital leases	76,784			(76,784)	0
Total accumulated Depreciation	242,217	61,151	61,402	0	241,966
Total depreciable capital assets, net	141,252	50,808	6,823	0	185,237
Business-type activities capital assets, net	\$ 141,252	50,808	6,823	0	185,237

**Adjustments are to reclassify equipment transferred to mobile equipment from paid off leases.

Depreciation expense was charged to the following functions:

	Amount
Governmental Activities:	
General government	\$ 103,568
Public safety	102,330
Public works	1,328,882
Total governmental activities depreciation expense	\$ 1,534,780
Business-type activities:	
Solid waste	\$ 61,151

Commitments with respect to unfinished capital projects at September 30, 2011, consisted of the following:

Description of Commitment	Remaining Financial Commitment	Expected Date of Completion
Jail	\$ 1,900,000	Unknown

SMITH COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2011

(8) Claims and Judgments.

Risk Financing.

The county finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The county pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$1,000,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2011, to January 1, 2012. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

(9) Capital Leases.

As Lessee:

The county is obligated for the following capital assets acquired through capital leases as of September 30, 2011:

Classes of Property		Governmental Activities
Mobile equipment	\$	1,818,019
Furniture and equipment		272,971
Total		2,090,990
Less: Accumulated depreciation		788,012
Leased Property Under Capital Leases	\$	1,302,978

The following is a schedule by years of the total payments due as of September 30, 2011:

Year Ending September 30	Governmental Activities	
	Principal	Interest
2012	\$ 431,186	31,430
2013	471,213	13,137
2014	164,419	4,972
2015	84,556	970
Total	\$ 1,151,374	50,509

SMITH COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2011

(10) Long-term Debt.

Debt outstanding as of September 30, 2011, consisted of the following:

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
Governmental Activities:			
A. General Obligation Bonds:			
Chancery building and jail	\$ 4,320,000	3.60/5.00%	03/2025
Agriculture complex	<u>250,000</u>	3.85/5.60%	03/2016
Total General Obligation Bonds	<u>\$ 4,570,000</u>		
B. Capital Leases:			
Toshiba copier	\$ 1,151	3.70%	05/2012
2010 Ford Crown Victoria	12,233	3.40%	11/2013
IBM Model 8203-E4A	40,613	3.37%	07/2015
Communications equipment	14,856	3.00%	09/2015
E-911 equipment	90,129	4.15%	12/2014
Broce Broom	624	3.14%	10/2011
Used 2009 durapatcher	133,183	2.62%	04/2015
Cat 320C excavator	91,377	4.28%	07/2012
Cat 416E backhoe	27,735	4.41%	03/2012
Caterpillar 140M motor grader	161,014	3.24%	12/2012
2008 Ford F-150 truck	4,752	3.80%	07/2012
Caterpillar 140M motor grader	162,931	3.24%	01/2013
Case 590 backhoe	24,219	3.37%	01/2013
John Deere tractor w/boom mower	64,943	2.43%	09/2015
2008 Silverado truck	6,386	2.85%	09/2012
Case 590 Super M backhoe	12,233	3.25%	04/2012
Used 2008 Caterpillar 315	75,630	3.15%	10/2014
Used Kubota M9540 tractor	23,140	2.75%	06/2015
Cat 416E backhoe	27,735	4.41%	03/2012
Caterpillar 315L CL excavator w/shovel	40,765	3.41%	01/2014
John Deere tractor w/ boom mower	63,679	2.43%	09/2015
2008 Silverado truck	3,287	2.95%	03/2012
Case 590 backhoe	24,219	3.37%	01/2013
Mack truck	<u>44,540</u>	3.27%	06/2014
Total Capital Leases	<u>\$ 1,151,374</u>		

SMITH COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2011

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Annual debt service requirements to maturity for the following debt reported in the Statement of Net Assets are as follows:

Governmental Activities:

Year Ending September 30	General Obligation Bonds	
	Principal	Interest
2012	\$ 275,000	180,544
2013	290,000	168,531
2014	300,000	156,456
2015	310,000	144,346
2016	325,000	131,534
2017 – 2021	1,555,000	478,959
2022 – 2026	1,515,000	131,299
Total	\$ 4,570,000	1,391,669

Legal Debt Margin - The amount of debt, excluding specific exempted debt, that can be incurred by the county is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the county, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the county. As of September 30, 2011, the amount of outstanding debt was equal to 2.58% of the latest property assessments.

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2011:

	Balance Oct. 1, 2010	Additions	Reductions	Adjustments	Balance Sept. 30, 2011	Amount due within one year
Governmental Activities:						
General obligation bonds	\$ 4,835,000		265,000		4,570,000	275,000
Capital leases	1,216,096	426,458	491,180		1,151,374	431,186
Total	\$ 6,051,096	426,458	756,180	0	5,721,374	706,186
Business-type Activities:						
Capital leases	\$ 16,712	0	16,712	0	0	0

(11) Contingencies.

Federal Grants - The county has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the county. No provision for any liability that may result has been recognized in the county's financial statements.

Litigation - The county is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the county with respect to the various proceedings. However, the county's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the county.

SMITH COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2011

(12) Joint Ventures.

The county participates in the following joint ventures:

Smith County is a participant with Rankin, Scott, and Simpson Counties in a joint venture, authorized by Section 39-3-9. Miss. Code Ann. (1972), to operate the Central Mississippi Regional Library System. The joint venture was created to provide free library service to the public and is governed by a five-member board of which two members are appointed by Rankin County and one member each from the other three counties. By contractual agreement, the county's appropriation to the joint venture was \$131,238 in fiscal year 2011. Complete financial statements for the Central Mississippi Regional Library System can be obtained from 3470 Highway 80 East, Pearl, MS 39208.

(13) Jointly Governed Organizations.

The county participates in the following jointly governed organizations:

Central Mississippi Emergency Medical Services District operates in a district composed of the Counties of Attala, Clarke, Copiah, Holmes, Lauderdale, Leake, Madison, Neshoba, Rankin, Scott, Smith, Warren, and Yazoo. The Smith County Board of Supervisors appoints two of the 26 members of the board. The county provided no financial support for the district in fiscal year 2011.

Region Ten Health-Mental Retardation Commission operates in a district composed of the Counties of Clarke, Jasper, Kemper, Lauderdale, Leake, Neshoba, Newton, Scott, and Smith. The Smith County Board of Supervisors appoints one of the nine members of the board of commissioners. The county provided \$20,840 for support of the commission in fiscal year 2011.

Jones County Junior College operates in a district composed of the Counties of Clarke, Covington, Greene, Jasper, Jones, Perry, Smith, and Wayne. The Smith County Board of Supervisors appoints two of the 20 members of the college board of trustees. The county appropriated \$251,197 for maintenance and support of the college for the fiscal year 2011.

East Central Mississippi Planning and Development District operates in a district composed of the Counties of Clarke, Jasper, Kemper, Lauderdale, Leake, Neshoba, Newton, Scott, and Smith. The Smith County Board of Supervisors appoints one of the 15 members of the board of directors. The county appropriated \$9,616 for support of the district in fiscal year 2011.

Mid-Mississippi Development District operates in a district composed of the Counties of Clarke, Jasper, Lauderdale, Newton, Scott, and Smith. The district was organized to foster, encourage, and facilitate economic development in the member counties. The district's board of trustees is composed of 30 members, five each from the six member counties. The county appropriated \$21,750 for support of the district in fiscal year 2011.

(14) Defined Benefit Pension Plan.

Plan Description. Smith County, Mississippi, contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 1-800-444-PERS.

SMITH COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2011

Funding Policy. At September 30, 2011, PERS members were required to contribute 9% of their annual covered salary, and the county is required to contribute at an actuarially determined rate. The rate at September 30, 2011 was 12% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The county's contributions (employer share only) to PERS for the years ending September 30, 2011, 2010 and 2009 were \$274,156, \$274,865 and \$270,451, respectively, equal to the required contributions for each year.

(15) Subsequent Events.

Events that occur after the Statement of Net Assets date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Assets date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Assets date require disclosure in the accompanying notes. Management of Smith County evaluated the activity of the county through December 18, 2012, and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements.

Subsequent to September 30, 2011, the county issued the following debt obligations:

Issue Date	Interest Rate		Issue Amount	Type of Financing	Source of Financing
02/02/2012	2.46%	\$	71,600	Capital lease	Ad valorem taxes
04/18/2012	2.37%		23,565	Capital lease	Ad valorem taxes
04/27/2012	2.23%		49,341	Capital lease	Ad valorem taxes
06/29/2012	2.15%		143,535	Capital lease	Ad valorem taxes
07/13/2012	2.49%		42,869	Capital lease	Ad valorem taxes
07/20/2012	2.32%		100,000	Capital lease	Ad valorem taxes
09/14/2012	2.00%		123,590	Capital lease	Ad valorem taxes

SMITH COUNTY

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SMITH COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

SMITH COUNTY

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SMITH COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 General Fund
 For the Year Ended September 30, 2011

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 3,686,260	3,847,784	3,847,784	
Licenses, commissions and other revenue	80,000	89,748	89,748	
Fines and forfeitures	110,000	117,780	117,780	
Intergovernmental revenues	856,575	1,025,521	1,025,521	
Charges for services	20,000	18,078	18,078	
Interest income	41,000	93,478	93,478	
Miscellaneous revenues	100,000	275,492	275,745	253
Total Revenues	<u>4,893,835</u>	<u>5,467,881</u>	<u>5,468,134</u>	<u>253</u>
EXPENDITURES				
Current:				
General government	2,249,700	2,677,588	2,677,588	
Public safety	1,409,269	1,524,387	1,524,387	
Health and welfare	94,206	101,099	101,099	
Culture and recreation	131,238	131,238	131,238	
Education	542,000			
Conservation of natural resources	67,402	56,387	56,387	
Economic development and assistance	40,250	28,890	28,890	
Debt service:				
Principal	17,000	27,678	27,678	
Interest		2,527	2,527	
Total Expenditures	<u>4,551,065</u>	<u>4,549,794</u>	<u>4,549,794</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>342,770</u>	<u>918,087</u>	<u>918,340</u>	<u>253</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	150,000	68,000	68,000	
Transfers out	(50,000)	(50,000)	(50,000)	
Other financing sources		500	500	
Other financing uses		43,000	43,000	
Total Other Financing Sources and Uses	<u>100,000</u>	<u>61,500</u>	<u>61,500</u>	<u>0</u>
Net Change in Fund Balance	442,770	979,587	979,840	253
Fund Balances - Beginning	<u>1,074,667</u>	<u>2,222,248</u>	<u>1,328,407</u>	<u>(893,841)</u>
Fund Balances - Ending	<u>\$ 1,517,437</u>	<u>3,201,835</u>	<u>2,308,247</u>	<u>(893,588)</u>

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

SMITH COUNTY
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
Countywide Road and Bridge Fund
For the Year Ended September 30, 2011

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 1,313,861	1,380,626	1,380,626	
Intergovernmental revenues	10,000	7,987	7,987	
Interest income	2,500	5,779	5,779	
Miscellaneous revenues	2,000	136	136	
Total Revenues	<u>1,328,361</u>	<u>1,394,528</u>	<u>1,394,528</u>	<u>0</u>
EXPENDITURES				
Current:				
Public works	840,000	899,691	899,691	
Debt service:				
Principal	15,000	22,058	22,058	
Interest		1,696	1,696	
Total Expenditures	<u>855,000</u>	<u>923,445</u>	<u>923,445</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>473,361</u>	<u>471,083</u>	<u>471,083</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(800,000)			
Other financing sources		180,874	180,874	
Other financing uses		(1,280,000)	(1,280,000)	
Total Other Financing Sources and Uses	<u>(800,000)</u>	<u>(1,099,126)</u>	<u>(1,099,126)</u>	<u>0</u>
Net Change in Fund Balance	(326,639)	(628,043)	(628,043)	
Fund Balances - Beginning	<u>725,000</u>	<u>438,242</u>	<u>1,022,565</u>	<u>584,323</u>
Fund Balances - Ending	<u>\$ 398,361</u>	<u>(189,801)</u>	<u>394,522</u>	<u>584,323</u>

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

SMITH COUNTY

Notes to the Required Supplementary Information For the Year Ended September 30, 2011

A. Budgetary Information.

Statutory requirements dictate how and when the county's budget is to be prepared. Generally, in the month of August, prior to the ensuing fiscal year beginning each October 1, the Board of Supervisors of the county, using historical and anticipated fiscal data and proposed budgets submitted by the Sheriff and the Tax Assessor-Collector for his or her respective department, prepares an original budget for each of the Governmental Funds for said fiscal year. The completed budget for the fiscal year includes for each fund every source of revenue, each general item of expenditure, and the unencumbered cash and investment balances. When during the fiscal year it appears to the Board of Supervisors that budgetary estimates will not be met, it may make revisions to the budget.

The county's budget is prepared principally on the cash basis of accounting. All appropriations lapse at year end, and there are no encumbrances to budget because state law does not require that funds be available when goods or services are ordered, only when payment is made.

B. Basis of Presentation.

The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) presents the original legally adopted budget, the final legally adopted budget, actual amounts on a budgetary (Non-GAAP Basis) and variances between the final budget and the actual amounts. The schedule is presented for the General Fund and each major Special Revenue Fund. The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) is a part of required supplemental information.

C. Budget/GAAP Reconciliation.

The major differences between the budgetary basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund and each major Special Revenue Fund:

	Governmental Fund Types	
	General Fund	Countywide Road and Bridge Fund
Budget (Cash Basis)	\$ 979,840	(628,043)
Increase (Decrease)		
Net adjustments for revenue accruals	(411,342)	4,078
Net adjustments for expenditure accruals	194,126	253,018
GAAP Basis	\$ 762,624	(370,947)

SMITH COUNTY

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SMITH COUNTY

SUPPLEMENTAL INFORMATION

SMITH COUNTY
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2011

Federal Grantor/ Pass-through Grantor/ Program Title or Cluster	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture/Passed-through the Mississippi State Treasurer's Office			
School and roads-grants to states* (Note B)	10.665	N/A	\$ <u>450,671</u>
U.S. Department of Housing and Urban Development/Passed-through the Mississippi Development Authority			
Community development block grants/state's programs	14.228	1124-07-065-PF-01	<u>209,237</u>
HOME investment partnership program	14.239	1221-M09-SG-280-978	<u>118,782</u>
Total U.S. Department of Housing and Urban Development			<u>328,019</u>
U.S. Department of Transportation - Federal Highway Administration/Passed-through the Mississippi Department of Transportation			
Highway planning and construction	20.205	BR NBIS 074 B(65)	27,300
Highway planning and construction	20.205	EFLH 0065 26 BO	<u>9,720</u>
Total U.S. Department of Transportation			<u>37,020</u>
U.S. Department of Energy/Passed-through the Mississippi Development Authority			
Energy efficiency and conservation block grant program	81.128	GT11-0810-0084	<u>4,000</u>
U.S. Department of Homeland Security/Passed-through the Mississippi Department of Public Safety - Office of Homeland Security			
State domestic preparedness equipment support program	97.004	S9LE065	<u>25,000</u>
U.S. Department of Homeland Security/Passed-through the Mississippi Emergency Management Agency			
Disaster grants - public assistance	97.036	FEMA-1972-DR-MS	<u>6,416</u>
Emergency management performance grant	97.042	11EMPL00	<u>26,195</u>
Total U.S. Department of Homeland Security			<u>57,611</u>
Total Expenditures of Federal Awards			\$ <u><u>877,321</u></u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A - Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting.

Note B - CFDA 10.665 Schools and roads - grants to states

CFDA 14.239 HOME investment partnership program

Of the federal expenditures presented in the schedule, the county provided federal awards totaling \$335,229 to subrecipients during the year ended September 30, 2011.

* Denotes major federal award program

SMITH COUNTY

SPECIAL REPORTS

SMITH COUNTY

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STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE
FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Board of Supervisors
Smith County, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Smith County, Mississippi, as of and for the year ended September 30, 2011, which collectively comprise the county's basic financial statements and have issued our report thereon dated December 18, 2012. Our report includes an adverse opinion on the aggregate discretely presented component unit due to the omission of the discretely presented component unit which is required by accounting principles generally accepted in the United States of America to be reported with the financial data of the county's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data for its component unit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the county is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Smith County, Mississippi's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the county's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the county's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as 11-1 and 11-2 to be material weaknesses.


Compliance and Other Matters

As part of obtaining reasonable assurance about whether Smith County, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to the management of Smith County, Mississippi, in the Limited Internal Control and Compliance Review Management Report dated December 18, 2012, included within this document.

Smith County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Smith County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Supervisors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

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WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

December 18, 2012



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the Board of Supervisors
Smith County, Mississippi

Compliance

We have audited the compliance of Smith County, Mississippi with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended September 30, 2011. Smith County, Mississippi's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Smith County, Mississippi's management. Our responsibility is to express an opinion on Smith County, Mississippi's compliance based on our audit.


We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Smith County, Mississippi's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Smith County, Mississippi's compliance with those requirements.

In our opinion, Smith County, Mississippi, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2011.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Supervisors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Will R. Dooss". The signature is fluid and cursive, with a long horizontal stroke at the end.

WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

December 18, 2012



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

**INDEPENDENT AUDITOR'S REPORT ON CENTRAL PURCHASING SYSTEM,
INVENTORY CONTROL SYSTEM AND PURCHASE CLERK SCHEDULES
(REQUIRED BY SECTION 31-7-115, MISS. CODE ANN. (1972))**

Members of the Board of Supervisors
Smith County, Mississippi

We have examined Smith County, Mississippi's (the County) compliance with establishing and maintaining a central purchasing system and inventory control system in accordance with Sections 31-7-101 through 31-7-127, Miss. Code Ann. (1972) and compliance with the purchasing requirements in accordance with the bid requirements of Section 31-7-13, Miss. Code Ann. (1972) during the year ended September 30, 2011. The Board of Supervisors of Smith County, Mississippi is responsible for the County's compliance with those requirements. Our responsibility is to express an opinion on the County's compliance based on our examination.

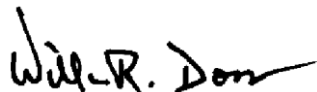
Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the County's compliance with those requirements and performing other procedures as we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the County's compliance with specified requirements. The Board of Supervisors of Smith County, Mississippi, has established centralized purchasing for all funds of the county and has established an inventory control system. The objective of the central purchasing system is to provide reasonable, but not absolute, assurance that purchases are executed in accordance with state law.

Because of inherent limitations in any central purchasing system and inventory control system, errors or irregularities may occur and not be detected. Also, projection of any current evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

In our opinion, Smith County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements for the year ended September 30, 2011.

The accompanying schedules of (1) Purchases Not Made from the Lowest Bidder, (2) Emergency Purchases and (3) Purchases Made Noncompetitively from a Sole Source are presented in accordance with Section 31-7-115, Miss. Code Ann. (1972). The information contained on these schedules has been subjected to procedures performed in connection with our aforementioned examination of the purchasing system and, in our opinion, is fairly presented when considered in relation to that examination.

This report is intended for use in evaluating the central purchasing system and inventory control system of Smith County, Mississippi, and is not intended to be and should not be relied upon for any other purpose. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Will R. Doss". The signature is fluid and cursive, with a long horizontal stroke at the end.

WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

December 18, 2012

SMITH COUNTY

Schedule 1

Schedule of Purchases Not Made From the Lowest Bidder
For the Year Ended September 30, 2011

Our test results did not identify any purchases from other than the lowest bidder.

SMITH COUNTY
Schedule of Emergency Purchases
For the Year Ended September 30, 2011

Schedule 2

Our test results did not identify any emergency purchases.

SMITH COUNTY

Schedule 3

Schedule of Purchases Made Noncompetitively From a Sole Source
For the Year Ended September 30, 2011

Our test results did not identify any purchases made noncompetitively from a sole source.

SMITH COUNTY

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STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors
Smith County, Mississippi

In planning and performing our audit of the financial statements of Smith County, Mississippi for the year ended September 30, 2011, we considered Smith County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to Smith County, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated December 18, 2012, on the financial statements of Smith County, Mississippi.

Due to the reduced scope, these review procedures and compliance tests cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, our consideration of internal control would not necessarily disclose all matters within the internal control that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

The results of our review procedures and compliance tests identified certain areas that are opportunities for strengthening internal controls and operating efficiency. Our findings, recommendations, and your responses are disclosed below:

Board of Supervisors.

1. Finding

Outstanding interfund loans should be repaid.

As reported in the prior four prior years' audit reports, the county has an interfund loan outstanding that is over a year old. This loan was created as a result of an error in settlements made by a former Tax Collector during the 1990 audit year. The amount remaining unpaid to date is \$71,373. Failure to repay this loan constitutes a diversion of legally restricted funds.

Recommendation

The Board of Supervisors should ensure that the old loan is repaid as soon as possible. The tax funds are owed by the Countywide Road and Bridge Fund to the School Tax Clearing Fund and are subsequently due to the Smith County School District.

Board of Supervisors' Response

Letter received from Smith County School District acknowledges that Smith County does not owe this.

Auditor's Note

The letter from the school district is dated May 22, 2012. Subsequently, this loan will be removed in the 2012 fiscal year.

2. Finding

Minutes of the board should be completely and correctly maintained.

Section 19-3-27, Miss. Code Ann. (1972), requires a complete and accurate record be maintained for the proceedings of the Board of Supervisors. Several board orders from one of the board meetings during the fiscal year ended September 30, 2011, were missing from the official minute book, which consisted of orders approving the purchase of equipment, deletion of capital assets, and approval of grant funds. The failure to properly document the proceedings entered into by the board could result in the loss or misappropriation of public funds.

Recommendation

The Board of Supervisors should ensure that complete and correct orders are spread on the minutes.

Board of Supervisors' Response

Cross referencing steps have been implemented to insure all proceedings and documentation are included in the minutes.

Circuit Clerk.

3. Finding

Bank deposits should be made on a daily basis.

An effective system of internal control should include making daily deposits. As reported in the prior four years' audit reports, we noted that bank deposits are not being made on a daily basis which is a deficiency of internal control. The failure to implement proper controls could result in the loss or misappropriation of public funds.

Recommendation

The Circuit Clerk should ensure that bank deposits are made daily.

Circuit Clerk's Response

Efforts will be made to deposit money more frequently.

4. Finding

Circuit Clerk should deposit money in an approved depository.

Section 27-105-303, Miss. Code Ann. (1972), requires that county funds be on deposit in an approved county depository. As reported in the prior year's audit report, the Circuit Clerk's funds were deposited in an unapproved depository for the 2010 and 2011 fiscal years. Failure to have funds on deposit in an approved county depository could result in a loss of funds to the county.

Recommendation

The Circuit Clerk should deposit funds in an approved county depository, as required by law.

Circuit Clerk's Response

Funds are now in an approved depository.

Chancery Clerk.

5. Finding

Chancery Clerk should maintain a proper fee journal and make daily deposits.

An effective system of internal control should include properly posting journal entries to a fee journal and making daily deposits. During our test work, we noted that the fee journal was not properly posted and various amounts were included in the incorrect categories. Also, deposits were only being made two to five times per month instead of daily. Failure to properly record items in the fee journal and make daily deposits could result in the loss of public funds.

Recommendation

The Chancery Clerk should ensure that the fee journal is properly posted and that daily deposits are being made.

Chancery Clerk's Response

Outside accountant has been hired to properly maintain and reconcile fee journal. Efforts will be made to deposit more frequently.

6. Finding

Chancery Clerk should deposit money in an approved depository.

Section 27-105-303, Miss. Code Ann. (1972), requires that county funds be on deposit in an approved county depository. As reported in the prior year's audit report, the Chancery Clerk's funds were deposited in an unapproved depository for the 2010 and 2011 fiscal years. Failure to have funds on deposit in an approved county depository could result in a loss of funds to the county.

Recommendation


The Chancery Clerk should deposit funds in an approved county depository, as required by law.

Chancery Clerk's Response

Funds are now in an approved depository.

Smith County's responses to the findings included in this report were not audited, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Supervisors, and others within the entity and is not intended to be and should not be used by anyone other than these parties. However, this report is a matter of public record and its distribution is not limited.



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

December 18, 2012

SMITH COUNTY

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SMITH COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SMITH COUNTY

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SMITH COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2011

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|--|---------------|
| 1. | Type of auditor's report issued on the financial statements: | |
| | Governmental activities | Unqualified |
| | Business-type activities | Unqualified |
| | Aggregate discretely presented component unit | Adverse |
| | General Fund | Unqualified |
| | Countywide Road and Bridge Fund | Unqualified |
| | Jail Construction Fund | Unqualified |
| | Solid Waste Fund | Unqualified |
| | Aggregate remaining fund information | Unqualified |
| 2. | Internal control over financial reporting: | |
| | a. Material weaknesses identified? | Yes |
| | b. Significant deficiency identified? | None Reported |
| 3. | Noncompliance material to the financial statements noted? | No |

Federal Awards:

- | | | |
|----|--|---------------|
| 4. | Internal control over major programs: | |
| | a. Material weakness identified? | No |
| | b. Significant deficiency identified? | None Reported |
| 5. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 6. | Any audit finding disclosed that are required to be reported in accordance with Section __.510(a) of OMB Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| | a. Schools and roads – grants to states, CFDA #10.665 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |

SMITH COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2011

Section 2: Financial Statement Findings

Board of Supervisors.

Material Weakness

11-1. Component Unit should be included in financials.

Finding

Generally accepted accounting principles require that financial data for the county's component unit to be reported with the financial data of the county's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data of the county's legally separate component unit. As reported in the prior four years' audit reports, the financial statements do not include the financial data for the county's legally separate component unit. The failure to properly follow generally accepted accounting principles resulted in an adverse opinion on the discretely presented component unit for the inclusion in the county's financial statements.

Recommendation

The Board of Supervisors should provide the financial data for its discretely component unit for the inclusion in the county's financial statements.

Board of Supervisors' Response

The cost of including the financial data of the county's legally separate component unit outweighs the benefits of doing so.

Board of Supervisors and Justice Court Clerk.

Material Weakness

11-2. Multiple weaknesses noted in the internal control structure in Justice Court Clerk's office.

Finding

An effective system of internal control over the collection, recording, and disbursement of cash should include maintaining cash journals and the supporting documentation. As reported in the prior three years' audit reports, the following deficiencies were noted in the accounting of cash:

- a. The criminal cash journal, civil cash journal, and clearing cash journal were not reconciled to the corresponding bank accounts.
- b. Proper criminal, civil, and clearing cash journals were not being kept on a monthly basis.
- c. Proper settlement reports were not being completed each month.
- d. Daily deposits were not being made.
- e. A May 2011 cash count revealed a net shortage of \$7,870.59 in criminal, civil, and clearing.

Without adequate accounting records, inaccurate information may be reported and increases the possibility of the loss or misappropriation of public funds.

SMITH COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2011

Recommendation

The Justice Court Clerk should properly maintain cash journals and the supporting documentation. The cash journals should be reconciled to the bank accounts on a monthly basis and daily deposits should be made. A cash shortage or overage should be reviewed and documented.

Justice Court Clerk's Response

Justice Court Clerk and Deputy Clerk have received training from Delta Computer Systems on how to properly use the program. Deposits will be made daily, bank statements will be reconciled by another county employee not working in the Justice Court Office. Random daily deposits will be done by the Chancery Clerk or Purchase Clerk. A new checking account will be opened. Also, an outside accountant has been hired to reconcile current checking account and account will be closed when he completes the reconciliation.

Section 3: Federal Award Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to federal awards.

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